

Message Text

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C O N F I D E N T I A L LONDON 18189

EXDIS

E.O. 11652: XGDS-1

TAGS: ENRG UK

SUBJECT: NORTH SEA OIL: BENN TIGHTENS SCREW ON
MAJORITY STATE PARTICIPATION NEGOTIATIONS

REF: LONDON 17982, LONDON 17830

1. WITHIN PAST FEW WEEKS IT HAS BECOME INCREASINGLY CLEAR THAT SECSTATE FOR ENERGY BENN IS DETERMINED TO USE OCCASION OF FIFTH LICENSING ROUND TO PRESS FOR OIL INDUSTRY AGREEMENT TO MAJORITY STATE PARTICIPATION. IN DOING SO, HE APPARENTLY INTENDS TO OBTAIN AT LEAST THE POTENTIAL FOR EXERTING A SUBSTANTIAL DEGREE OF CONTROL OVER UPSTREAM OPERATIONS OF ALL NORTH SEA CRUDE PRODUCERS AS WELL AS DOWNSTREAM OPERATIONS OF COMPANIES FULLY INTEGRATED IN UK SUCH AS BP, SHELL, EXXON AND MOBIL.

2. BENN'S CURRENT EFFORTS TO INSTITUTE A CONSULTATIVE MECHANISM AS REGARDS DISPOSITION OF NORTH SEA CRUDE CLEARLY GO BEYOND PARTICIPATION CONCEPT ELABORATED BY HAROLD LEVER EARLIER ON. INSTEAD OF AUTOMATIC COMPANY BUYBACK RIGHT TO 51 PERCENT BNOC SHARE OF CRUDE EXTENDING OVER A PERIOD OF 7 TO 10 YEARS, BENN IS NOW INSISTING ON UK "NATIONAL INTEREST" DETERMINATION FOR SUCH CRUDE WITH ITS BUILT-IN POTENTIAL FOR INFLUENCING COM-
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PANY DECISIONS ON DISPOSITION OF ITS OWN 49 PERCENT OF

CRUDE, FIELD DEVELOPMENT OR REFINERY PLANS, ETC. ALTHOUGH STILL NEGOTIATING WITHIN BROAD FRAMEWORK ESTABLISHED BEFORE HE TOOK OVER PRIMARY RESPONSIBILITY FOR CONDUCT OF PARTICIPATION NEGOTIATIONS, BENN HAS GRADUALLY BUT DEFINITELY SHIFTED EMPHASIS AWAY FROM ESSENTIALLY COSMETIC ARRANGEMENT TO ONE INVOLVING POTENTIALLY DOMINANT BNOC/DEPT. OF ENERGY ROLE. MOST COMPANIES, WITH EXCEPTION OF SHELL/ESSO, HAVE TENDED GRUDGINGLY TO ACCEPT INEVITABILITY OF MORE INTERVENTIONIST BENN APPROACH IN ORDER TO AVOID ADVERSE EFFECT ON THEIR EXISTING OR PROSPECTIVE OFFSHORE OR ONSHORE OPERATIONS IN UK. HOWEVER WITHIN RECENT WEEKS THERE ARE INDICATIONS THAT AT LEAST ONE ADDITIONAL MAJOR COMPANY (MOBIL) AND POSSIBLY OTHERS (TEXACO AND CHEVRON) MAY DECIDE TO BALK AT TOUGHER TERMS PROPOSED BY BENN.

3. EMBASSY BELIEVES SPECIFIC ISSUES RELATING TO DEGREE OF HMG INVOLVEMENT IN UPSTREAM AND/OR DOWNSTREAM OPERATIONS, WHETHER THROUGH INSTRUMENTALITY OF DEPARTMENT OF ENERGY OR BNOC, ARE ESSENTIALLY FOR COMPANIES AND HMG TO SETTLE AMONG THEMSELVES. WE ALSO BELIEVE HOWEVER THAT AN IMPORTANT IF NOT OVERRIDING INTEREST OF US AND UK GOVERNMENTS SHOULD BE MAINTENANCE OF FAVORABLE INVESTMENT CLIMATE FOR PRIVATE INDUSTRY EXPLOITATION OF NORTH SEA RESOURCES. WE ARE CONCERNED THAT IN COURSE OF STRETCHING PARTICIPATION CONCEPT BENN MAY VERY WELL BE ADVERSELY AFFECTING BOTH PROSPECTS FOR NORTH SEA OIL DEVELOPMENT AND, MORE BROADLY, PROSPECTS FOR BRITAIN'S EARLY ECONOMIC RECOVERY IN A PERIOD OF UNDER INVESTMENT AND SEVERE UNEMPLOYMENT.

4. IN AN EFFORT TO HEAD OFF OR DAMPEN DAMAGING CONFRONTATION BETWEEN HMG AND OIL MAJORS ON PARTICIPATION ISSUE, EMBASSY INTENDS TO DISCUSS OUR UNDERSTANDING OF CURRENT SITUATION WITH HMG OFFICIALS. IT MAY BE HELPFUL TO TAKE OPPORTUNITY OF NOVEMBER 18-19 VISIT OF SECRETARY OF COMMERCE RICHARDSON TO RAISE MATTER DIRECTLY WITH SECSTATE BENN AND OTHER CABINET OFFICIALS.

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5. SUGGEST DEPARTMENT PASS THIS MESSAGE AND REFTELS TO SECRETARY RICHARDSON IN PREPARATION FOR HIS VISIT TO LONDON.

ARMSTRONG

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